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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

Arizona Corporation Commission

DOCKETED

MAY 19 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION  
FOR APPROVAL TO SET CUSTOMER  
OWNED YARDLINE ("COYL") COST  
RECOVERY MECHANISM SURCHARGE  
RATE

DOCKET NO. G-01551A-10-0458

DECISION NO. 75095

ORDER

Open Meeting  
May 12 and 13, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On February 27, 2015, Southwest filed a request for approval of the Company's customer-owned yard line ("COYL") surcharge. Southwest's application requested a surcharge of \$0.00432 per therm, effective June 1, 2015.

3. Southwest's filing is pursuant to provisions contained in a settlement agreement approved by the Commission in Decision No. 72723 (January 6, 2012) to establish a COYL program that would survey existing COYLs and replace COYLs that are found to have leaks. A COYL is a service line where the meter is generally located at the property line or public right-of-way, some distance from the customer premises, and the customer currently owns and is responsible for replacing/repairing the service line if there are any problems with it.

1           4.       Southwest no longer installs COYLs, but rather locates the meter at the building or  
2 structural wall of the customer premises. Customers may not properly maintain their COYLs or even  
3 be aware of their responsibility to maintain their COYLs, creating a potential safety hazard due to  
4 corrosion and leakage.

5           5.       Under the COYL program approved in Decision Number 72723, Southwest was given  
6 \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak  
7 detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace  
8 COYLs discovered through the COYL survey or from a leak survey following an odor call complaint  
9 and recover capital investment related to the COYL replacement program through a COYL cost  
10 recovery mechanism ("CCRM"), as detailed in the settlement agreement. The CCRM surcharge is not  
11 permitted to be greater than \$0.01 per therm in any single year and would be reset annually.

12           6.       In Decision No. 74304 (January 29, 2014), the Commission expanded the COYL  
13 replacement program to allow COYL replacements to take place in coordination with other pipeline  
14 replacement projects, regardless of whether the COYL is leaking. Southwest considers the initial  
15 COYL program to be Phase 1 and the COYL replacements in coordination with pipeline replacement  
16 projects to be Phase 2.

17           7.       In Decision No. 73883 (May 8, 2013), the Commission approved Southwest's initial  
18 CCRM surcharge of \$0.00101 per therm, effective June 1, 2013. This surcharge was based upon total  
19 COYL spending of \$4.1 million in 2012. In Decision No. 74499 (May 23, 2014), the Commission  
20 approved a CCRM surcharge of \$0.00231 per therm, effective June 1, 2014. This was based upon  
21 total COYL spending through the end of 2013 of \$9.8 million.

22           8.       Southwest's current filing reflects total spending of approximately \$5.6 million on  
23 Phase 1 and \$678,000 on Phase 2 in 2014, resulting in Southwest's request to increase the CCRM  
24 surcharge to \$0.00432 per therm, effective June 1, 2015. Spending through the end of 2014 on the  
25 COYL program totals \$15,357,174 for Phase 1 and \$677,508 for Phase 2, for a grand total of  
26 \$16,034,682.

27           9.       The table below shows information on the COYL program activities since the  
28 program began in 2012 as well as 2014 specific activities.

	2014 Activities Only	2012-2014 Total Activity
<i>Phase 1</i>		
Total Lines Inspected or Attempted to be Inspected	26,838	130,513
Lines Identified as Not Being Eligible Under the COYL Program	5,581	26,205
Lines Identified as COYLs	21,257	104,308
<i>Of Lines Identified as COYLs:</i>		
Number Passing the Survey	7,674	54,927
Number Identified as Leaks	2,012	6,296
Number Refusing to allow Southwest to Survey	2,422	8,954
Number Southwest was Unable to Contact	8,834	34,072
<i>Of Lines Identified as Having Leaks:</i>		
Number of COYLs Replaced	1,926	5,929
Replacements in Progress at the Time of Southwest's Filing	26	
Number Undecided as to Whether to Replace	60	
Number Declining Replacement of Leaking COYL	60	219
<i>Phase 2</i>		
Number of COYLs Replaced	245	245
Replacement in Progress at the Time of Southwest's Filing	293	293
Number Declining Replacement of COYLs	657	657

10. Southwest had indicated in the previous year's filing that 19,190 known COYLs remain in Arizona to be inspected in 2014 (not counting those for which Southwest has attempted to survey but has been unable to). Southwest has indicated that all known COYLs have now been inspected other than those that refused an inspection and those who Southwest has been unable to contact. The initial round of inspections was expected to take place in three years, and thus Southwest has completed all available inspections (apart from those COYLs it has been unable to gain access to inspect) within the initial three year period of the COYL program.

11. Southwest has replaced a total of 5,929 COYLs through the end of 2014 and estimates that a further 88,611 remain to be replaced (this includes customers who have refused to have their

1 COYL inspected or who Southwest has been unable to contact). Southwest now estimates that the  
2 COYL program would cost \$233,131,632 to replace all COYLs in its Arizona service territory.

3 12. Staff has expressed a concern in its review of the annual COYL filing in past years  
4 regarding the large number of Southwest customers who may have COYLs but either have refused to  
5 allow Southwest to inspect their COYL when contacted or whom Southwest has been unable to  
6 contact at all. The total number of such customers is 43,026. Southwest has reported making  
7 additional efforts to contact such customers and has begun having focus groups with customers to  
8 help the Company identify ways to work with customers to reduce the number who have not had an  
9 inspection. Staff continues to be concerned with the high number of COYL customers who have not  
10 had an inspection.

11 13. Southwest's Phase 2, where COYLs are replaced in conjunction with other pipe  
12 projects the Company is undertaking, resulted in 538 COYLs being replaced (or in process) in 2014.  
13 The cost of these replacements appears to be a little lower than costs for replacements under Phase 1.  
14 Southwest has indicated it expects to have approximately 1,400 further COYLs eligible for  
15 replacement in 2014 via Phase 2, with approximately 350 of these customers agreeing to have their  
16 COYL replaced.

17 14. Southwest is seeking recovery of \$15,357,174 in gross COYL plant installed in through  
18 the end of 2014 for Phase 1 and \$677,508 in gross COYL plant installed through the end of 2014.  
19 Staff has reviewed the 2014 costs and held discussions with Southwest regarding these costs and  
20 believes that these costs are reasonable for the purpose of recovering them through the CCRM  
21 surcharge. Southwest estimates that the average residential impact of the proposed surcharge would  
22 be approximately \$0.11 per month.

23 15. Staff has recommended approval of the \$0.00432 per therm CCRM surcharge,  
24 effective for 12 months, beginning on June 1, 2015.

#### 25 CONCLUSIONS OF LAW

26 1. Southwest Gas Corporation is an Arizona public service corporation within the  
27 meaning of Article XV, Section 2, of the Arizona Constitution.

28 ...

2. The Commission has jurisdiction over Southwest Gas Corporation and over the subject matter of the application.

3. The Commission, having reviewed the filing and Staff's Memorandum dated April 15, 2015, concludes that it is in the public interest to approve a \$0.00432 per therm CCRM surcharge, effective for 12 months, beginning on June 1, 2015.

ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's application for a CCRM surcharge of \$0.00432 per therm, effective for 12 months, beginning on June 1, 2015, be and hereby is approved.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRMAN

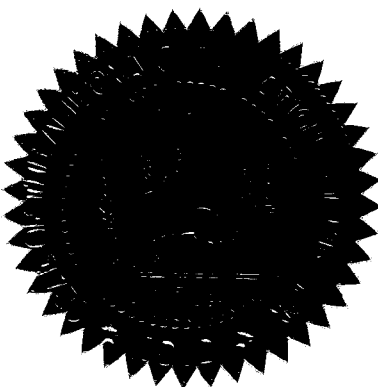
  
COMMISSIONER

  
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COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of May, 2015.



  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:RRG:red/RRM

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